
The Kroger Co. 1974

The Kroger Co.
1974 Annual Report

1014 Vine Street, Cincinnati, Ohio 45201
Telephone: 513-381-8000

Contents

ABOUT THE COVER:
Our cover gives a shopper's-eye view of a Kroger *superstore*. Excitement. Friendliness. Efficiency. Color. Variety. *Choice!*

DIRECTORS

H. U. ANDREAE, *Chairman of the Executive Committee,* The Jeffrey Company

JAMES E. BAKER, *Vice President*

WILLIAM W. BOESCHENSTEIN, *President,* Owens-Corning Fiberglas Corporation

JACOB E. DAVIS, *Former Chairman and President*

LYLE EVERINGHAM, *Senior Vice President*

JAMES P. HERRING, *President and Chief Executive Officer*

JACKSON C. HINDS, *Chairman of the Board and President,* Entex, Inc.

GENE D. HOFFMAN, *Senior Vice President*

GEORGE A. LEONARD, *Vice President, Secretary and General Counsel*

T. BALLARD MORTON, JR., *President,* Orion Broadcasting, Inc.

W. GEORGE PINNELL, *Executive Vice President,* Indiana University

WILLIAM P. RUNYAN, *Vice President; President,* Top Value Enterprises, Inc

R. NELSON SHAW, *Director and Former Chairman,* Mercantile Stores Company, Inc.

EDWARD D. SMITH, *Chairman of the Board,* First National Holding Corp. and The First National Bank of Atlanta

MORLEY P. THOMPSON, *President,* D H. Baldwin Company

CORPORATE OFFICERS

RAYMOND F. ABARAY, *Vice President*

JAMES E. BAKER, *Vice President*

ROBERT W. BRAUNSCHWEIG, *Vice President*

JOHN A. CORNETT, *Vice President*

LYLE EVERINGHAM, *Senior Vice President*

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WILLIAM P. RUNYAN, *Vice President; President,* Top Value Enterprises, Inc.

ROBERT E. SAFFRON, *Vice President*

EDMOND M. SHIPP, *Vice President; President,* SupeRx Drug Stores

JOHN L. STRUBBE, *Vice President*

IRLE R. HICKS, *Treasurer*

CARL W. BRIESKE, *Assistant Treasurer*

LEWIS L. CLUM, *Assistant Secretary*

ARTHUR L. FERGUSON, *Assistant Secretary*

STANLEY R. SCHROTEL, *Assistant Secretary*

TRANSFER AGENTS

The First National Bank of Cincinnati
111 E. Fourth Street
Cincinnati, Ohio 45202

Bankers Trust Company
485 Lexington Avenue
New York, New York 10017

REGISTRARS

The Central Trust Company
Fourth and Vine Streets
Cincinnati, Ohio 45202

Chemical Bank
20 Pine Street
New York, New York 10015

New York Stock Exchange Listing — Symbol KR

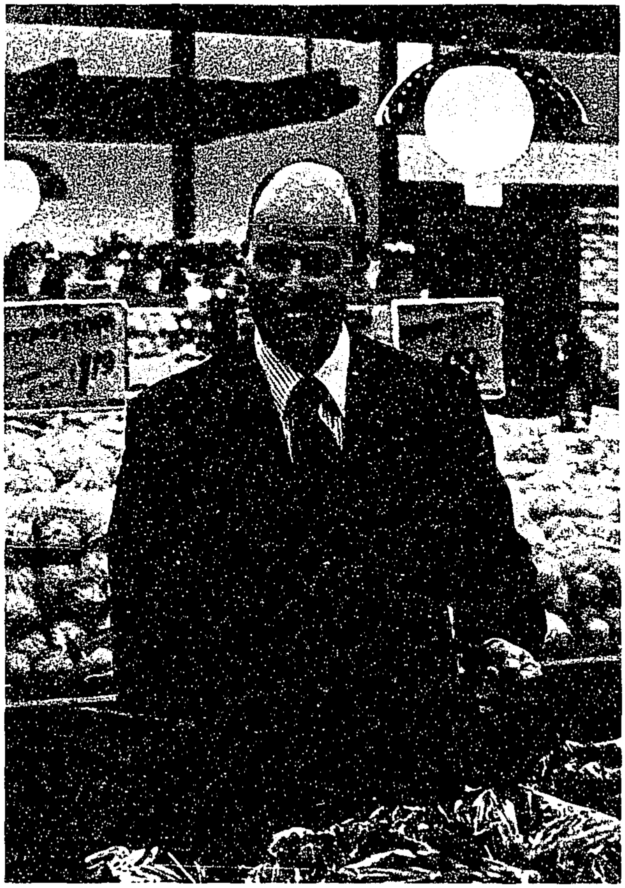
THE KROGER CO. is the sixth largest retailing company in the United States as ranked by total sales. The Company operates the country's third largest supermarket chain with 1241 supermarkets in 20 states, primarily in the Midwest and South. Kroger also manufactures and processes food for sale by these supermarkets. *SupeRx Drug Stores,* with 522 drug stores in 24 states at the close of 1974, is one of the largest drug store chains. *Top Value Enterprises* is the nation's second largest trading stamp company, and also is active in the fields of business incentives, promotional continuity programs, travel services, and amusement parks.

Financial Highlights

	1974	1973	Change
SALES	$ 4,782,448,981	$ 4,204,677,433	+13.7%
NET EARNINGS	$ 45,238,860	$ 29,916,386	+51.2%
DIVIDENDS PAID	$ 18,088,341	$ 17,460,862	
SHAREOWNERS' EQUITY	$ 420,208,282	$ 392,852,229	+7.0%
PER COMMON SHARE			
NET EARNINGS	$ 3.36	$ 2.22	+$1.14
DIVIDENDS	$ 1.34½	$ 1.30	+$0.04½
SHAREOWNERS' EQUITY	$ 31.16	$ 29.15	+$2.01

A copy of the Company's 1974 report to the Securities and Exchange Commission, Form 10-K, is available to shareowners on request by writing: Irle R. Hicks, Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201

The annual meeting of shareowners will be held at the office of the Company, 1014 Vine Street, Cincinnati, Ohio on April 10, 1975 at 10 a.m.



To our fellow shareowners:

Kroger in 1974 began to see improvements resulting from our development efforts of the past three years. Sales were an all-time high. Earnings moved to a more favorable level, although the earnings rate still is below normal.

The improved results came from more effective operations throughout the company — increased sales, performance of new and modernized stores, closing of unprofitable stores, internal efficiencies, and more productive marketing programs.

Sales of $4.8 billion were up 13.7% from last year. Earnings of $45.2 million or $3.36 per share, while up substantially from the previous year, should be viewed in perspective. Earnings in 1973 were severely depressed, particularly for our food stores. While our progress, resulting from all the factors listed above, has been steady, we still have not reached what we consider a satisfactory earnings level, whether measured as a percent of sales (9/10 of 1%) or return on equity (11%).

Significant progress was made in 1974, but it also was a complex and challenging year. We believe that Kroger today is equipped to deal with the changes and challenges that have become a part of everyday business activities.

Among the key factors which have been affecting our operation:

—*Economic controls.* The removal of economic controls in mid-year released pent-up pressures across the nation which had been building during the control period. Cost increases were intense during most of the year — both for products and for virtually every other expense in connection with the operation of our business. The disruption of normal marketing patterns produced by controls and other factors has continued to affect supplies and costs. Government policymakers should recognize how ill-advised reimposition of controls would be. Positive steps should be taken to deal with inflation itself — not merely try to treat the symptoms.

—*Stores modernization.* This is an essential element in our future progress. Improvement of our retail facilities continues. During 1975, we plan to open 80 new food stores and to remodel 36 successful existing stores, many with sizeable enlargements. SupeRx plans to open 61 new drug stores and 15 will be remodeled. By the end of the year, 70% of our retail facilities will be in the new or modernized category.

We normally schedule store openings, remodel/expansions, and closings on a fairly even pattern throughout the year. However, as noted in the Third Quarter Report, construction delays altered this pattern

in 1974. A disproportionate number of new and remodeled stores, as a result, opened late in the year or were delayed until the first quarter of 1975. These stores will benefit us as they mature and become profitable, but the expense of store openings and closings will impact heavier than normal in the first quarter of 1975.

—*Kroger Marketing Areas.* The 23 retail food store divisions of varied sizes which Kroger operated in 1972 now have been combined into 13 larger, stronger and more viable Marketing Areas. Our top talent is in charge of these Marketing Areas, and the resulting benefits are expected to grow and to produce an even more effective and productive total organization.

—*Energy conservation* is crucial, both from our company standpoint and from our national needs. Our energy-saving program is apparent in cooler stores in winter, warmer in summer, and reduced lighting. More productive utilization of our truck fleet saved more than three million gallons of diesel fuel last year. And over 250 million pounds of cardboard was recovered for recycling through our corrugated cardboard baler program. In addition to helping serve our country's needs and conserve our natural resources, these programs also help to balance out our dramatically-increased costs for utilities and fuel.

—*Productivity.* Our industry has thrived because it has through the years provided efficient delivery of their food supply to the American people. Continuing inflation and rising costs have put an even greater obligation on the food industry to continue to improve every aspect of our operation. At the same time, we must show improved results in the interest of our shareowners and our employees, as well as our continued progress. To accomplish this, we must improve productivity to match accelerating wage rates. Greater efficiency at every level is a continuing and intensified need.

Lyle Everingham and Gene D. Hoffman have been promoted to senior vice presidents of the company. Integration of the retailing and manufacturing operations of the company began several years ago, and the realignment of responsibilities is a part of that organizational plan. Together they are responsible for the total operation of the company's food retailing and manufacturing complex.

Morley P. Thompson, president of the D. H. Baldwin Company; Jackson C. Hinds, chairman, president, and chief executive officer of Entex, Inc., and George A. Leonard, vice president, secretary and general counsel of the company, have been elected Kroger directors. James M. Phelan, who gave distinguished service as a director since 1962, died suddenly in July. Robert O. Aders and Ben H. Carpenter have resigned as directors for business reasons. We appreciate the many fine contributions of these men and are grateful for their wise counsel and advice through the years.

The year 1975 is expected to be one of high level of interest from government in the food distributing industry, as was 1974. We welcome the opportunity to present the facts about the food business, with confidence that any objective inquiry will demonstrate once again that the supermarket industry operates in a manner consistent with the best public interest.

We do not like high food prices any better than do our customers. Kroger will continue to do everything possible to help consumers get more for their food dollar.

Economic conditions throughout the country have affected many businesses in the communities in which Kroger operates. Although some changes in shopping patterns are taking place, we are fortunate that the food and drug businesses, which deal in essential family needs, are to a large extent recession-resistant.

The results achieved thus far in Kroger's long-range plans for progress and profits are gratifying. We have confidence in the direction your company is moving and look forward to continued improvement.

We are building on a solid base. Our achievements of 1974 look toward a more efficient, more consumer-oriented and more profitable company in the years to come.

Sincerely,

President and
Chief Executive Officer

March 3, 1975

Corporate Annual Reports usually are devoted only to **Results.** *How many new stores opened Sales and profits. Outstanding achievements of the previous year.*

Kroger has that kind of story to tell. A good one. We have made significant strides in the past few years. We are beginning to see the fruition of our development efforts.

Kroger is proceeding in accord with long-range planning. Planning built on a solid base of research. We know where we intend to go. And how. Aggressively and competitively. In a manner which insures consumer trust and loyalty in the years to come.

But all of this did not happen accidentally. Or in an instant flash. That's why we are devoting this section of the 1974 Kroger Annual Report to a candid review of our ***Planning*** *procedure . . .* ***how*** *we got where we are as well as* ***where*** *we are . . . the background of Kroger's development of its long-range plans for progress and profits.*

The supermarket industry today is part of a changing world. Consumers have new needs . . . they are more demanding, with greater expectations. It's a world where shortages and external factors can influence the daily operations of a company. A competitive world where the company which properly anticipates and meets the needs of the shopper wins out. But it's also an exciting, open-minded, challenging atmosphere.

"Planning for the future begins with a candid review of the past and the present."

Starting back in 1970-71, Kroger conducted a thorough, deep-probing review of Kroger operations during the past 20 years.

Next the history of major competitors — as well as the food store industry in general — was placed under the same microscope. Kroger measured itself — against its individual competitors . . . and against the best in the industry.

The 50's were successful years for most of the supermarket industry — and Kroger was no exception. But during the 1960's new factors came into the picture. Business had to adjust. Now it operated in an atmosphere of increased mobility and newer, more sophisticated

shopping patterns. And managing for change became a daily part of doing business . . . accelerated change.

Some firms resisted adjustment. Kroger advanced in some areas . . . rested on its laurels in others.

"We studied first-hand each of our retail operating areas. We listened . . . absorbed . . . evaluated. We looked with fresh eyes at the very fiber of our business . . ."

The next step was to conduct an in-depth audit of Kroger's assets. Brick and mortar. Financial. And most important, Kroger people.

Even the psychological climate in which major strategic decisions, as well as normal day-to-day operating decisions, were made in the company received attention.

What Kroger's publics — from customers to competition — were saying about the company also was reviewed. Their attitudes provided valuable insight.

Analysis was made, too, of the effect of external forces — consumerism, government regulations, international influences, food shortages, rising wage rates and flat or declining productivity. Any factors which might affect Kroger's ability to survive and prosper.

As all this information came together, a good perspective was being gained as to how Kroger — and the food industry in general — arrived at its relative standings as of the early 1970's.

Throughout Kroger, many heartening factors were found. Basic and encouraging strengths.

The company's financial condition was sound.

Back-up facilities were excellent. Most processing plants were new or modernized. The excellence of the Kroger Brands operation served Kroger in good stead during the next three years as retail food stores faced a difficult period . . . beset by such factors as economic controls, greatly intensified competition, food shortages and costs rising faster than retail prices.

Distribution facilities were in good condition, too, and were able to handle the increased volume being forecast for the food stores.

But the study also disclosed some unfavorable factors. Such as the age and size of Kroger stores. The 16,000 square foot typical food store facility of 1970 was inadequate to continue to meet the expectations of today's and tomorrow's discriminating food shopper. The average store was 10 years old. This was a clear sign of trouble unless changes were made.

We were beginning to see clearly where we needed to go. Some basic needs and directions were becoming obvious. But a large, long-range commitment of executive time and talent and a sizeable financial investment would be required. On an extended basis, not a crash program.

Needs were assessed and opportunities evaluated in every market where Kroger operated. In some instances, where sizeable operating losses had accrued, and there was little likelihood of improvement in the near future, Kroger chose to leave the market.

It was not an easy decision to move out of Chicago, Milwaukee, Minneapolis and Birmingham. But it was necessary for the health of the total company . . . allowing use of manpower and resources more productively elsewhere — in marketing areas where additional investment offered greater potential for sales growth and profitability.

Kroger went to the public debt market for the first time in its history in 1970, to raise $75 million to help finance the stores building program. A second offering in 1973 realized $60 million.

"The retail store is the key to our corporate and individual success. This is where all our efforts meet. This is where we get it all together."

A new store concept was evolving. One which meets the needs of Kroger shoppers today and into tomorrow. Larger . . . from 25,000 to 40,000 square feet in size. A *superstore.* Bigger. Brighter. More colorful. Warm and friendly.

A *superstore* providing the assortment of products, special interest departments, and customer services — to satisfy the everyday needs of a wide spectrum of the American consumer. And at the same time, more efficient and economical to operate.

That's the kind of store Kroger is building today. And consumer response has justified that judgment. Sales per square foot are greater in superstores. And they include a greater number of the items which are more profitable. The general merchandise. The Kroger Brand products. Enabling the company to offer value prices yet still improve the earnings rate.

- *During the past three years — 1972, 1973 and 1974 — Kroger's capital expansion investment has totaled $237.5 million (and $80 million more is projected for 1975), most of it going into retail stores improvement. With the major part of the development completed and beginning to show improved results, it is anticipated that future expansion funds will for the most part be internally-generated.*

- *Under this program, by the end of 1975, Kroger will have opened 300 new food stores, remodeled an additional 250 into virtually new stores (most with large expansions), and closed 500 smaller, older or unprofitable stores.*

- *Stores being built today average over 29,000 square feet in size. In 1970, the average new store was 16,136 square feet.*

- *By the end of this year, 44% of Kroger's total food store square footage will be in large superstores. Perhaps even more significant, 70% will be in the new or modernized category.*

- *Average weekly sales per store have risen from $42,527 in 1970 to approximately $70,000 today.*

Kroger's store program accomplishments of the past three years have reinforced and enhanced the company's position as a company "on the move." Further, these facilities were built at a substantially lower cost than would be possible today in the face of wildly-inflated construction costs.

Cheese Plant Opens

While major capital expenditures have gone into stores, other areas offering potential for quality and profitability have also been developed. The Rochester, Minnesota, cheese plant, which opened at the end of 1974, will produce both natural and process cheeses . . . with a potential capacity of 144 million pounds annually. Located in the heartland of a rich milk and cheese production area, the plant helps Kroger assure uniform high-quality cheese for shoppers.

As part of its delicatessen and institutional line, the plant also supplies imported and specialty cheeses for the Kroger superstore delicatessens.

"Our most valuable resource remains the Kroger employee. Kroger is fortunate to have a wealth of talent at each level of management."

In order for any company's long-range plans to be workable and productive, key management from throughout the company must participate in the development of those plans. Involvement is essential. Commitment is crucial. As plans become a part of the fabric of the company, each person must eagerly accept responsibility and feel a personal sense of pride in their implementation.

This is the key factor that has made Kroger's achievements of the past three years possible.

An integral part of planning is the evaluation and development of the flexibility and bench strength of each of the company leaders and of the people who back them up. Their experience, motivations, aspirations . . . their present and future potential . . . measured against the framework of long-range plans.

To more fully equip Kroger people to operate in the demanding business world of today, educational efforts have been expanded. The Kroger Education Center in Cincinnati, since it opened last March, has provided specialized management development education for more than 1250 Kroger people . . . everybody from the top level of management to superstore department heads. Other management skills education programs throughout the company benefited several hundred additional Kroger men and women.

"The larger, more viable Kroger Marketing Area concept is increasing the total effectiveness of our retail operation."

As Kroger looked at the administrative control of food store operations and its impact on the execution of long-range plans, certain needs were recognized. Particularly in light of growing superstore development.

Kroger in 1972 operated 23 retail divisions. These now have been combined into 13 larger Kroger Marketing Areas. Top performers have been selected and given more responsibility and a greater degree of decision-making authority. And it is increasing total effectiveness.

The new organization is reducing the length of the communications channel from decision-making to implementation. It is increasing merchandising and promotional impact through stronger, regionalized programs.

Each Kroger Marketing Area team has prepared objectives relative to sales, profits, merchandising programs, personnel, facilities, productivity levels . . . all factors which measure success in a market. Considered almost as though the Marketing Area were an individual company. At the same time, all plans are consistent with the needs of customers . . . shareowners . . . employees . . . and The Kroger Co. as a whole.

"The Kroger superstore is the focal point of a total marketing concept . . . involving an integrated and ongoing total planning effort."

As more and more Kroger stores moved into the superstore category, new merchandising techniques were needed . . . broader, more sophisticated, more directly consumer-oriented.

Today's merchandising plans recognize all the factors which influence shoppers . . . everything from a price-conscious economy . . . to growing interest in international and ethnic foods . . . to a choice of packaged or loose fresh fruits and vegetables. Variety. Quality. Value. *Choice!*

In Tennessee, Kroger produce experts worked with the University of Tennessee Agricultural Extension Service in a pilot educational program. Store produce people learned how fresh fruits and vegetable are grown, bought *and shipped . . . discussed quality control . . . handling* methods for maximum freshness . . . and even gained first-hand experience with exotic vegetables — how to eat an artichoke, for example. When shoppers ask, these Kroger produce people know the answer!

A favorite stop for Kroger superstore shoppers is the delicatessen/bakery — there were 391 at year end. Epitomizing the service and friendliness of the superstore, they deal in quality and smiles. Plump doughnuts sizzling as they cook to a tender brown. Fat German sausages, aromatic pink slices of ham, cheeses from around the world. Salads for a picnic or a party as well as meal-capping desserts.

Keyed mainly to the family and home entertaining (the party tray line has been doubled because of its popularity), many delicatessens now offer carryout hot food as well.

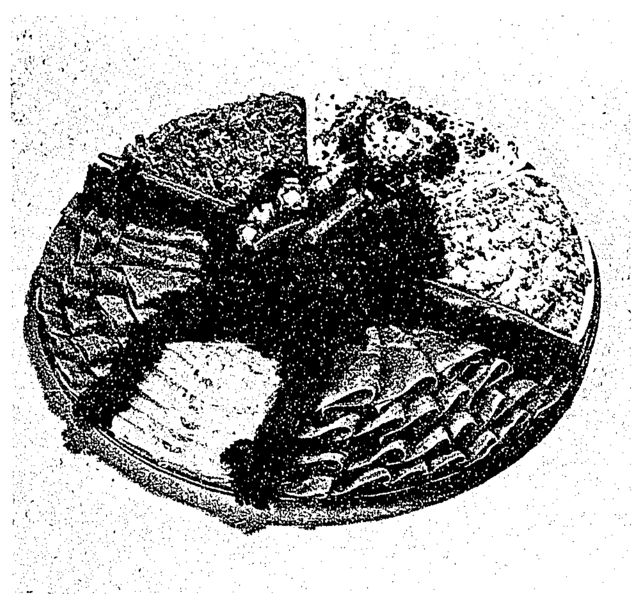
Marketing programs also respond to consumer issues. Open Dating. Nutrition Labeling. Guaranteed contents and fat percentage of ground beef. Primal cut identification and simplified meat nomenclature.

Helping consumers shop more wisely ranges everywhere from informational columns in price ads to a three-session seminar conducted by Central Marketing Area merchandisers right in a store, with chairs set up between

Choice is a key word. *The Choice Is Yours* is the theme of a companywide program introduced last year to acquaint shoppers with the benefits of Kroger Brand products. Matched to the most popular brands. Yet selling for less. Quickest way to cut the family budget! But if shoppers prefer a national or regional brand, they'll find those also, at their Kroger superstore.

A *choice,* too, was given consumers in beef. Kroger's U.S.D.A. Choice Grade Beef was joined by a new type — Thrifty Beef. Younger, leaner. And sold at a considerable savings.

Kroger superstore shoppers are presented with a multicolored array of more than 100 different kinds of fresh fruits and vegetables. In more and more Kroger stores today, consumers have an additional choice — prepackaged or loose produce. Since unpackaged produce requires different handling than prepackaged, Kroger people are receiving specialized training.



the carrots and the canned peaches! Other pilot programs — such as a produce seminar for home economics teachers in Nashville — extend Kroger's role as a food information leader . . . and express the company's genuine concern with helping the consumer.

Energy-saving, too, remains a critical national need. Kroger stores are a little darker these days . . . cooler in winter and a bit warmer in summer . . . as the company gears up to assist in the job.

Kroger trucks, too, are helping. Through careful scheduling and full utilization of loads, the Kroger fleet saved more than three million gallons of diesel fuel in 1974.

And with balers installed in most Kroger stores, over 250 million pounds of corrugated cardboard was recovered for recycling last year.

Planning is not a one-time exercise. It is a continuing, living process which gains vitality from a thorough knowledge of all factors which affect it. Flexibility is a must. But steadiness in objectives, principles and direction lends strength to achievement of goals. The company still has much to do. But Kroger today is on the move and progressing in line with long-range plans.

Top Value Enterprises

Top Value continues to broaden the scope of its activities as it has for several years.

Business incentives and travel programs have increased 40% during the past two years. Continuity and other merchandising programs also have shown sizeable increases.

A major development has come in the leisure-time business, both in travel and in family amusement park complexes.

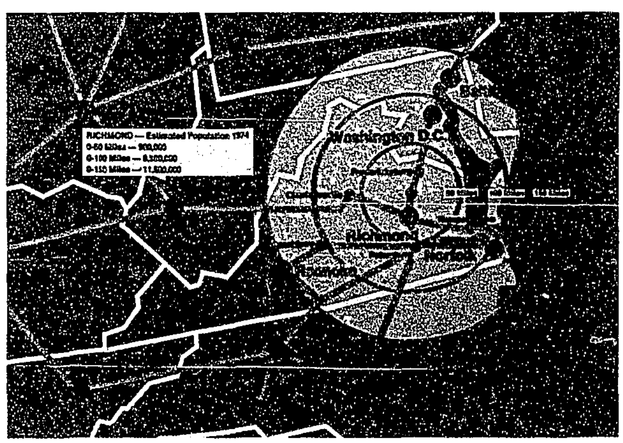
Kings Dominion

Lion Country Safari — where the people are in the cages and the animals roam free — was the first section of Kings Dominion to open for the 1974 season. Attendance of 650,000 exceeded expectations. Grand opening of the main portion of the amusement area is set for May 3.

The family amusement complex near Richmond, Virginia, is being developed and operated by Family Leisure Centers, Inc., a joint venture of Top Value Enterprises and Taft Broadcasting Company.

More than 11 million people live within a 150-mile radius of Kings Dominion — comparable to Taft's highly-successful Kings Island, near Cincinnati. Kings Island draws 83% of its steadily growing attendance from that radius.

Family Leisure Centers also is acquiring the Carowinds Amusement Park near Charlotte, North Carolina. Arrangements are expected to be completed on or about April 1. Carowinds also has access to a wide population — eight million persons live within 150 miles, and the park attracted 2.2 million visitors in its two years of operation. Family Leisure Center's management team already is at the park site, and expanded marketing plans are under way.



"At SupeRx, long-term growth is our target."

SupeRx Drug Stores ended 1974 with 522 stores in 24 states. With sales of $390 million in 1974, SupeRx ranks as one of the largest retail drug chains in the nation.

Store building programs are planned from a position of strength. Resources are allocated to those marketing areas where greater potential for sales and profits exists. During the past three years, SupeRx has moved out of areas such as Cleveland, Fort Wayne and Northern California. During the same period, 146 new stores have been opened and 40 modernized.

New SupeRx stores (61 are planned for 1975) average over 14,900 square feet in size — compared to 9,155 for the average store in 1970.

"We're increasing the square footage of stores and broadening the mix, but prescriptions still are the key to our business."

The 1660 SupeRx pharmacists filled more than 20 million prescriptions during 1974 . . . representing nearly 23% of sales. The company's continuing high standards of professionalism won SupeRx another industry honor during the year — the 1974 Eli Lilly Award, given "in recognition of outstanding community health service."

SupeRx in 1975 offers shoppers everything from a pack of gum to a $100-plus camera or stereo system, or even a color TV. A selected group of stores has experimented with bank credit cards for purchase of these high-ticket items, but most SupeRx stores continue to be cash-and-carry.

A second photoprocessing plant has been opened in Atlanta to meet growing demand and to provide quick turnaround service to SupeRx customers in the Southeast. It joins the first plant opened in Cincinnati in 1970 to serve the Midwest.

The company's pharmaceutical manufacturing plant now provides generic drugs for SupeRx as well as the SupeRx Brand Regular and Natural Vitamin lines.

Promotion From Within

A chainwide performance and promotability inventory keeps SupeRx top management aware of talent available throughout the organization.

Promotion from within is a prime consideration in filling posts . . . although SupeRx also has brought in talent from other companies and from pharmacy colleges.

The company's steady growth has continued to open up opportunities for management advancement.

New SupeRx headquarters in Springdale, Ohio, are scheduled for completion in the spring of 1975.

SupeRx, with its feet firmly planted in the present, looks to the future and counts its successes market by market.

FINANCIAL REVIEW

Operating Results by Lines of Business

Sales for 1974 were $4.8 billion, an increase of 13.7% over 1973. Net earnings were $45.2 million, an increase from $29.9 million in 1973. Sales and earnings before extraordinary items by principal lines of business for the five years 1970 through 1974 were as follows:

	1974	1973	1972	1971	1970
Sales:			(in millions of dollars)		
Food Business	**$4,392**	$3,857	$3,474	$3,413	$3,459
Drug Stores	**390**	348	317	295	277
Total	**$4,782**	$4,205	$3,791	$3,708	$3,736
Earnings:					
Food Business	**$ 62.8**	$ 25.5	$ 16.0	$ 56.8	$ 69.5
Drug Stores	**16.9**	16.2	12.9	9.7	14.6
	$ 79.7	$ 41.7	$ 28.9	$ 66.5	$ 84.1
Taxes based on income	**36.9**	19.0	11.8	31.4	43.0
	$ 42.8	$ 22.7	$ 17.1	$ 35.1	$ 41.1
Equity in net earnings of unconsolidated companies	**2.4**	7.2	8.0	2.6	2.5
Earnings before extraordinary items	**$ 45.2**	$ 29.9	$ 25.1	$ 37.7	$ 43.6

Quarterly Results

Sales for the fourth quarter of 1974 were $1.1 billion, an increase of 8.5% over the like period of 1973. Earnings of $14.6 million or $1.09 per share improved from earnings of $1.04 per share for the comparable period of 1973. Fourth quarter 1974 results were adversely affected by strikes in Pittsburgh, Pa., and Charleston, W. Va., during the early weeks of the quarter resulting in the temporary closing of as many as 108 supermarkets. Quarterly sales, earnings, and earnings per share for 1974 and 1973 were as follows:

	Sales In Millions		**Earnings In Millions**		**Earnings Per Share**	
Quarter	**1974**	1973	**1974**	1973	**1974**	1973
1st (12 weeks)	**$1,064**	$ 928	**$ 9.5**	$ 3.6	**$ .70**	$ .27
2nd (12 weeks)	**1,098**	958	**8.1**	5.5	**.60**	.41
3rd (16 weeks)	**1,474**	1,262	**13.0**	6.7	**.97**	.50
4th (12 weeks)	**1,146**	1,057	**14.6**	14.1	**1.09**	1.04
	$4,782	$4,205	**$45.2**	$29 9	**$3.36**	$2.22

Unconsolidated Companies

Equity in net earnings of unconsolidated companies amounted to $2.4 million or 18¢ per share compared to $7.2 million or 53¢ per share in 1973. Net earnings of Top Value Enterprises, Inc., a wholly-owned unconsolidated subsidiary, includes gains on sales of securities of $254 thousand and $4.3 million, after applicable taxes, for the years 1974 and 1973, respectively. Net earnings of Top Value in 1973 also includes a non-recurring year-end adjustment of $3.9 million resulting from a reduction in its estimated liability for unredeemed trading stamps. This adjustment was based upon a statistical study in compliance with federal tax regulations effective for 1973. Revenues and earnings of Top Value were adversely affected during 1974 as a result of the discontinuance of stamps by certain Kroger food store marketing areas and reduced issuance of stamps to gasoline service stations. Additional information with respect to the current financial position of Top Value is included in the Notes to Consolidated Financial Statements.

Management's Analysis of Summary of Operations

The following is an analysis of the Company's operations for the years 1972, 1973 and 1974. Please refer to the Five Year Summary on page twenty for financial and other statistics.

Earnings for 1972 were down sharply, the major factor being the intense competitive conditions in the food retailing industry. Food operations began well in 1972, however, sales and earnings declined when competition intensified in nearly every Kroger market. Steps were taken to maintain and then improve the Company's sales position. The resulting improvements and the seasonal benefits of holiday business finished the year on a strong upturn. SupeRx drug store sales were good and earnings improved throughout 1972. During the year, operations of Family Center Stores division were discontinued as these stores had become increasingly unprofitable. The decision resulted in an extraordinary loss of $5.3 million. Equity in net earnings of unconsolidated companies increased in 1972. Substantially all of these earnings were from Top Value Enterprises, Inc., which included $7.1 million from gains on sale of securities.

Food business sales and earnings improved during 1973 and this continued throughout 1974. The improvements over the past two years resulted from more efficient merchandising programs, operating efficiencies, the growing number of larger, modern food stores, closing of unprofitable stores and the removal of economic controls in 1974. The performance of SupeRx Drug Stores continued the trend of improved sales and earnings. Results of unconsolidated companies declined in 1974 from the unusually high levels of 1973 and 1972 as described above.

Capital Expenditures

Capital expenditures for 1974 totaled $114.7 million up from $67.5 million in 1973. Expenditures in 1974 included $79.1 million, or 69% of the total, for retail stores and related equipment; $11.6 million for food processing facilities and equipment; and $19.8 million for distribution centers, equipment and vehicles. Investment tax credits in 1974 amounted to 37¢ per share compared to 23¢ per share in 1973. Capital expenditures for 1975 are projected to be slightly over $80 million, the major portion of which will continue to be spent for retail stores and related equipment.

Common Stock Price Range

Calendar Quarter	High	Low
1st 1973	24⅜	20¼
2nd 1973	20½	15⅛
3rd 1973	18¾	15½
4th 1973	21¾	17
1st 1974	24⅞	18⅞
2nd 1974	23¾	18½
3rd 1974	19¾	14¼
4th 1974	18¾	14¼

Dividends

Dividends of $1.34½ per common share were paid in 1974 which marks the 73rd consecutive year in which dividends have been paid out of current earnings. Effective with the second quarter of 1974, the quarterly dividend was increased from 32½¢ to 34¢ per share. Dividends of 32½¢ per share were paid in each quarter of 1973 and in the first quarter of 1974. The regular quarterly dividend of 34¢ per share payable March 1, 1975, to shareowners of record January 31, 1975, was declared on January 10, 1975.

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended December 28, 1974 and December 29, 1973	**1974 (52 Weeks)**	1973 (52 Weeks)
Sales	**$4,782,446,981**	$4,204,677,433
Costs and Expenses:		
Merchandise costs including warehousing and transportation	**$3,726,304,565**	$3,310,988,429
Operating, general and administrative expenses	**845,156,941**	733,154,456
Rent	**74,441,315**	66,012,763
Depreciation and amortization	**42,965,518**	40,930,822
Interest on long-term debt	**12,829,964**	9,149,349
Other interest expense	**979,501**	2,685,275
Taxes based on income	**36,943,148**	19,035,239
Total	**$4,739,620,952**	$4,181,956,333
Earnings before equity in net earnings of unconsolidated companies	**$ 42,828,029**	$ 22,721,100
Equity in net earnings of unconsolidated companies	**2,410,831**	7,195,286
Net earnings	**$ 45,238,860**	$ 29,916,386
Average number of shares of common stock outstanding	**13,483,376**	13,465,022
Net earnings per share of common stock	**$ 3.36**	$ 2.22

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Years Ended December 28, 1974 and December 29, 1973	**1974**	1973
Accumulated earnings — Beginning of the year	**$ 313,379,502**	$ 301,334,665
Net earnings for the year	**45,238,860**	29,916,386
Treasury stock transactions	**(141,195)**	(410,687)
	$ 358,477,167	$ 330,840,364
Dividends on common stock — $1.34½ per share in 1974 and $1.30 per share in 1973	**18,088,341**	17,460,862
Accumulated earnings — End of the year	**$ 340,388,826**	$ 313,379,502

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

ASSETS	DEC. 28, 1974	DEC. 29, 1973
CURRENT ASSETS		
Cash and temporary cash investments	$ 51,285,258	$ 70,384,937
Receivables	46,785,201	69,141,086
Inventories	458,331,225	404,250,492
Store and general supplies	5,729,080	4,831,375
Prepaid and other current assets	16,390,044	14,904,155
Total current assets	$ 578,520,808	$563,512,045
PROPERTY, PLANT AND EQUIPMENT		
Land	$ 16,257,192	$ 14,903,650
Buildings	76,134,003	65,494,735
Equipment	410,162,815	375,572,642
Leaseholds and leasehold improvements	141,100,634	116,251,670
	$ 643,654,644	$572,222,697
Allowance for depreciation and amortization	250,050,646	245,003,534
Property, plant and equipment, net	$ 393,603,998	$327,219,163
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to unconsolidated companies	$ 39,575,223	$ 37,981,531
Other investments, at cost, and other assets	1,105,305	5,644,524
Excess of cost of investments in consolidated subsidiaries over equities in net assets	15,792,117	15,820,060
Total investments and other assets	$ 56,472,645	$ 59,446,115
Total Assets	**$1,028,597,451**	$950,177,323

LIABILITIES

	DEC. 28, 1974	DEC. 29, 1973
CURRENT LIABILITIES		
Current portion of long-term debt	$ 26,510,000	$ 1,510,000
Accounts payable	230,641,693	209,767,046
Accrued expenses	104,922,647	93,135,573
Accrued federal income and other taxes	29,739,404	14,105,638
Total current liabilities	$ 391,813,744	$318,518,257
OTHER LIABILITIES		
Long-term debt	$ 122,470,000	$148,980,000
Deferred federal income taxes	58,225,000	52,010,000
Employees' benefit fund	35,880,425	37,816,837
Total other liabilities	$ 216,575,425	$238,806,837
Total Liabilities	$ 608,389,169	$557,325,094

SHAREOWNERS' EQUITY

Common capital stock, par $1, at stated value		
Authorized: 18,000,000 shares		
Issued: 1974 — 13,743,280; 1973 — 13,741,977	$ 88,580,890	$ 88,555,289
Accumulated earnings	340,388,826	313,379,502
	$ 428,969,716	$401,934,791
Common stock in treasury, at cost		
1974 — 256,673 shares; 1973 — 264,923 shares	8,761,434	9,082,562
Total Shareowners' Equity	$ 420,208,282	$392,852,229
Total Liabilities and Shareowners' Equity	$1,028,597,451	$950,177,323

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 28, 1974 and December 29, 1973	**1974 (52 Weeks)**	1973 (52 Weeks)
SOURCES OF WORKING CAPITAL		
From operations:		
Net earnings	**$ 45,238,860**	$ 29,916,386
Charges (credits) to earnings not requiring funds:		
Depreciation and amortization	**42,965,518**	40,930,822
Provision for deferred federal income taxes	**6,215,000**	4,951,776
Equity in net earnings of unconsolidated companies	**(2,410,831)**	(7,195,286)
Total sources from operations	**$ 92,008,547**	$ 68,603,698
Capital stock issued for acquisition		280,000
Capital stock issued under option plans	**25,601**	
Additions to long-term debt		60,000,000
Sale of capital assets subsequently leased back		16,000,000
Net book value of capital asset disposals	**8,473,153**	13,818,361
Reductions of other investments	**4,539,219**	1,553,523
Total sources	**$105,046,520**	$160,255,582
USES OF WORKING CAPITAL		
Capital expenditures	**$114,681,961**	$ 67,489,030
Dividends paid	**18,088,341**	17,460,862
Purchase of capital stock for treasury		33,413
Reductions of long-term debt	**26,510,000**	1,510,000
Employees' benefit fund payments, net of provision	**1,936,412**	2,142,400
Other changes, net	**2,116,530**	4,832,763
Total uses	**$163,333,244**	$ 93,468,468
Net increase (decrease) in working capital	**$(58,286,724)**	$ 66,787,114

ANALYSIS OF WORKING CAPITAL CHANGES

	Increase (Decrease)	
Current asset changes:		
Cash and temporary cash investments	**$(19,099,679)**	$ 15,253,283
Inventories	**54,080,733**	52,392,697
Other current assets	**(19,972,291)**	13,073,088
Net increase in current assets	**$ 15,008,763**	$ 80,719,068
Current liability changes:		
Current portion of long-term debt	**$ 25,000,000**	
Accounts payable	**20,874,647**	$ 852,064
Accrued expenses and taxes	**27,420,840**	13,079,890
Net increase in current liabilities	**$ 73,295,487**	$ 13,931,954
Net increase (decrease) in working capital	**$(58,286,724)**	$ 66,787,114

The accompanying notes are an integral part of the financial statements.

ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in preparing the Company's financial statements. These policies conform to generally accepted accounting principles and have been consistently applied.

Principles of Consolidation

The consolidated financial statements include the Company and all of its domestic subsidiaries except Top Value Enterprises, Inc., one other subsidiary and all partially-owned affiliated companies, all of which are included in the statement of earnings on the equity basis.

Certain amounts in the financial statements for 1973 have been reclassified to conform to the 1974 presentation.

Inventories

The inventories are valued at the lower of cost or market with cost determined on the retail and first-in, first-out methods.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization is computed principally on the straight-line basis. All maintenance and repairs are charged to earnings. Betterments and renewals which increase the value or productive capacity of assets are capitalized.

Excess of Cost of Investments in Consolidated Subsidiaries Over Equities in Net Assets

The excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition originating prior to November, 1970 is not being amortized because, in the opinion of management, there has been no decrease in value. Amounts arising after October, 1970 are not significant and are being amortized by the straight-line method over forty years.

Deferred Federal Income Taxes and Investment Tax Credit

Deferred federal income taxes include the amount of tax applicable to the excess of depreciation for tax purposes over the normal depreciation used for financial reporting purposes and the amount of tax applicable to the change in 1973 from the LIFO (last-in, first-out) to the FIFO (first-in, first-out) method of inventory valuation, net of the amount of tax credits applicable to the unfunded portion of employees' benefit fund expense which has been charged to income.

Investment tax credits are included as reductions of income tax expense in the years in which the credits arise.

PENSION PLANS

The Company has two noncontributory retirement plans for eligible employees, one funded and one unfunded. The Company also contributes to multi-employer plans jointly administered by management and union representatives. An improved vesting schedule for the funded plan was adopted during 1974.

The actuarially computed value of vested benefits for the Company administered plans as of December 28, 1974 exceeded the total of the pension fund and balance sheet accruals by approximately $39,753,000. Past service costs for the Company's plans are being amortized over forty years.

The total pension expense for all plans for 1974 and 1973 was $29,091,543 and $23,826,536, respectively. As a result of the Pension Reform Act of 1974 the unfunded plan will be revised, principally for vesting. However, compliance with requirements of the Act will not have a significant impact upon subsequent financial statements of the Company.

UNCONSOLIDATED COMPANIES

The Company's equity in the net earnings of unconsolidated subsidiaries and partially-owned affiliated companies includes the net earnings of Top Value Enterprises, Inc. in the amount of $832,097 for 1974 and $4,660,240 for 1973. These amounts include gains on sale of securities, after applicable taxes, of $253,724 and $4,295,346 for 1974 and 1973, respectively.

A condensed balance sheet of Top Value Enterprises, Inc. is as follows (in thousands of dollars):

Assets	1974	1973
Investments:		
Marketable securities (approximate market value $39,220 - 1974)	$ 66,398	$ 71,182
Investment in Family Leisure Centers, Inc. and other	21,843	11,425
	$ 88,241	$ 82,607
Inventories and accounts receivable	36,495	42,982
Other	18,232	24,295
	$142,968	$149,884
Liabilities and Shareowner's Equity		
Unredeemed trading stamps and other liabilities	$110,810	$125,103
Installment note payable	6,500	
Shareowner's equity	25,658	24,781
	$142,968	$149,884

The quoted market value of the preferred and common stocks included in the marketable securities portfolio was $18,039,000 (net of related tax effect of $5,553,000) less than cost at year-end ($12,923,000 at February 13, 1975 net of related tax effect of $5,539,000). No adjustment has been made for the carrying amount of securities because, in management's opinion, there is no indication of a permanent loss in value and there is no intent to liquidate the securities portfolio at less than cost.

Marketable securities of $48,141,000 at cost ($27,659,000 at market) were pledged at 1974 year-end as described below. Certain of these securities collateralize the installment note payable, which is part of a revolving line of credit of $10,000,000 for the financing of Top Value's investment in Family Leisure Centers, Inc. (FLC). Top Value owns 50% of FLC, a corporate joint venture, which is engaged in the construction and operation of amusement parks. The first park is scheduled to open for full operation in May, 1975. Top Value, as guarantor of a $10,000,000 loan to the venture, has pledged certain of these marketable securities as collateral.

Investments in and advances to unconsolidated companies at December 28, 1974 include:

Top Value Enterprises, Inc., at cost plus share of undistributed earnings since acquisition	$27,203,147
Other domestic subsidiaries and partially-owned affiliated companies, at cost plus share of undistributed earnings since acquisition	12,372,076
	$39,575,223

LEASES

The Company operates principally in leased premises. Lease terms generally range from ten to twenty-five years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase. The Company's lease arrangements have been classified as either noncapitalized finance leases or operating leases for purposes of this disclosure in accordance with the requirements of the Securities and Exchange Commission.

Rent expense on all leases consists of:

1974	Finance Leases	Operating Leases	Total
Minimum rentals, net of minor sublease rentals	$17,347,464	$52,683,864	$70,031,328
Contingent rental payments	1,016,264	3,393,723	4,409,987
Total	$18,363,728	$56,077,587	$74,441,315
1973			
Minimum rentals, net of minor sublease rentals	$15,812,297	$46,705,185	$62,517,482
Contingent rental payments	490,734	3,004,547	3,495,281
Total	$16,303,031	$49,709,732	$66,012,763

Certain of the leases provide for contingent rental based upon a percent of sales.

Aggregate minimum annual rentals, net of subleased rentals which are minor in amount, for leases in effect at December 28, 1974 are as follows:

	Finance Leases	Operating Leases	Total
1975	$ 17,974,000	$ 52,658,000	$ 70,632,000
1976	17,804,000	49,168,000	66,972,000
1977	17,501,000	45,532,000	63,033,000
1978	17,398,000	41,792,000	59,190,000
1979	17,336,000	39,093,000	56,429,000
1980-1984	82,714,000	162,016,000	244,730,000
1985-1989	68,743,000	109,633,000	178,376,000
1990-1994	48,492,000	55,086,000	103,578,000
1995-2004	34,093,000	—0—	34,093,000
	$322,055,000	$554,978,000	$877,033,000

The present value of all future payments on noncapitalized finance leases at December 28, 1974 and December 29, 1973 on real property amounted to $157,670,000 and $162,127,000, respectively. Interest rates used in the present value computation ranged from 4.5%-11.5% and the weighted average interest rates used were 7.3% and 7.0% for 1974 and 1973, respectively.

If all noncapitalized finance leases were capitalized, the effect on net earnings for the years ended December 28, 1974 and December 29, 1973 would have been as follows:

	1974	1973
Rental payments, net of related taxes and insurance	$ 16,566,000	$ 15,484,000
Amortization of property rights on a straight-line basis	(8,363,000)	(8,024,000)
Interest expense	(10,779,000)	(9,467,000)
	$(2,576,000)	$(2,007,000)
Taxes based on income	1,323,000	1,040,000
Decrease in net earnings	$(1,253,000)	$(967,000)

DEBT OBLIGATIONS

Long-term debt at December 28, 1974 included:

8⅞% notes maturing in 1975	$ 25,000,000
5½% notes maturing in 1977; with annual prepayments of $160,000	480,000
5¼% notes, $2,100,000 maturing in 1978, and $900,000 maturing in 1979; with annual prepayments of $500,000	4,650,000
10¾% notes maturing in 1980; with annual prepayments of $100,000	600,000
5.3% notes maturing in 1981; with annual prepayments of $750,000	8,250,000
9% sinking fund debentures maturing in 1995; with annual prepayments of $2,500,000 commencing in 1976	50,000,000
8.70% sinking fund debentures maturing in 1998; with annual prepayments of $3,000,000 commencing in 1979	60,000,000
	$148,980,000
Less amount due within one year	26,510,000
	$122,470,000

Under certain of the loan agreements, payments of cash dividends are limited. Under the most limiting agreement, accumulated earnings were unrestricted in the amount of $89,598,231 at December 28, 1974.

Short-term borrowings of the Company averaged $8,051,236 and have ranged up to $45,200,000 during 1974 at a weighted average annual interest cost of 10.30%.

TAXES BASED ON INCOME

The provision for taxes based on income consists of:

	1974	1973
Federal		
Current	$23,225,000	$ 8,340,224
Deferred	6,215,000	4,951,776
	$29,440,000	$13,292,000
State and Local		
Current	7,503,148	5,743,239
Total	$36,943,148	$19,035,239

The provision for taxes based on income is lower than the normal statutory corporate tax rate principally due to investment tax credits which reduced the tax provision by $4,958,000 in 1974 and $3,058,000 in 1973.

The Company follows the practice of reinvesting permanently the earnings of subsidiaries in order to meet the requirements of the business and, therefore, has not considered any additional tax provision to be appropriate. Undistributed earnings, exclusive of those amounts which if remitted in the near future would result in little or no tax because of current income tax laws, are not material in amount.

COMMON STOCK

Changes in common stock during 1973 and 1974 were as follows:

	Issued		Treasury	
	Shares	Amount	Shares	Amount
Balance, Dec. 31, 1972	13,741,977	$88,555,289	286,772	$9,848,876
Acquired			1,900	33,413
Issued			(23,749)	(799,727)
Balance, Dec. 29, 1973	13,741,977	$88,555,289	264,923	$9,082,562
Exercise of options	1,303	25,601		
Issued			(8,250)	(321,128)
Balance, Dec. 28, 1974	13,743,280	$88,580,890	256,673	$8,761,434

Under a compensation agreement the Company issued 6,750 shares in 1973 and 8,250 shares in 1974 of common stock held in the Company's treasury.

The shares issued had a fair market value at the date of transfer of $109,040 and $179,933 for the years 1973 and 1974, respectively. The excess of the cost of such shares over the fair market value at the date of issue has been charged to accumulated earnings.

The Company issued 16,999 shares from its treasury for purchase of a company during 1973.

PREFERRED STOCK

The Company has authorized 750,000 shares of voting cumulative preferred stock. The stock has a par value of $50 per share and is issuable in series. None is outstanding at December 28, 1974.

STOCK OPTION PLANS

At December 28, 1974, options to purchase common stock of the Company were outstanding under the 1965 and 1969 Stock Option Plans. Options may be granted under the 1965 and 1969 Plans until 1975 and 1979, respectively. At December 28, 1974, shares of common stock available for future options under the 1965 and 1969 Plans amounted to 39,767 shares and 76,002 shares, respectively. Options are granted at a price equal to the fair market value of the stock at the date of grant.

At December 29, 1973, options to purchase 396,684 shares of common stock were outstanding. Option transactions during 1974 may be summarized as follows: granted 101,150 shares (at prices ranging from $15.56 to $22.63 per share); exercised 1,303 (at prices ranging from $15.81 to $23.63 per share); expired or cancelled 170,008 shares. Options granted include options for 66,950 shares with an exercise price of $15.56 (market price at date of grant) which were issued in replacement of options for 133,900 shares with exercise prices ranging from $26.75 to $36.75 which were cancelled. Options to purchase 326,523 shares (at prices ranging from $15.56 to $28.69 per share) were outstanding at December 28, 1974. Options for 116,231 shares were exercisable at December 28, 1974.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

To the Shareowners and Board of Directors
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and Consolidated Subsidiary Companies as of December 28, 1974, and the related consolidated statements of earnings, accumulated earnings and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Top Value Enterprises, Inc., an unconsolidated subsidiary. These statements were examined by other independent certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Top Value Enterprises, Inc., is based solely upon the report of the other accountants. We previously examined and reported upon the consolidated financial statements of The Kroger Co. and Consolidated Subsidiary Companies for the 52 weeks ended December 29, 1973.

The opinion of the other accountants, referred to in the preceding paragraph, was qualified subject to the ultimate effect, if any, on the financial statements of the realization of costs of marketable securities. It is not possible to determine at this time whether any loss will be realized on these securities. Any loss ultimately realized will affect the carrying value of the Company's investment in unconsolidated companies. See Unconsolidated Companies in Notes to Consolidated Financial Statements.

In our opinion, based upon our examination and the report of other accountants, and subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter referred to in the preceding paragraph, the above referred to financial statements present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at December 28, 1974 and December 29, 1973, and the consolidated results of their operations and changes in financial position for the 52 week periods then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand
3800 Carew Tower
Cincinnati, Ohio 45202
February 14, 1975

Coopers & Lybrand

FIVE YEAR SUMMARY

OPERATIONS *(thousands of dollars, except per share figures)*	1974	1973	1972	1971	1970(c)
Sales	**$4,782,449**	4,204,677	3,790,532	3,707,918	3,735,774
Costs and Expenses, excluding Taxes Based on Income	**$4,702,678**	4,162,921	3,761,526	3,641,374	3,651,730
Taxes Based on Income	**$ 36,943**	19,035	11,832	31,382	42,979
Equity in Net Earnings of Unconsolidated Companies	**$ 2,411**	7,195	7,952	2,585	2,518
Earnings Before Extraordinary Items	**$ 45,239**	29,916	25,127(a)	37,747(b)	43,583
Net Earnings	**$ 45,239**	29,916	20,373	33,691	43,583
Dividends	**$ 18,088**	17,461	17,407	17,370	17,192
Per Share					
Earnings Before Extraordinary Items	**$ 3.36**	2.22	1.87(a)	2.82(b)	3.29
Net Earnings	**$ 3.36**	2.22	1.51	2.52	3.29
Dividends	**$ 1.34½**	1.30	1.30	1.30	1.30

BALANCE SHEET STATISTICS *(thousands of dollars, except per share figures)*	1974	1973	1972	1971	1970(c)
Inventories	**$ 458,331**	404,250	351,858	319,481	307,319
Working Capital	**$ 186,707**	244,994	178,207	191,942	153,429
Property, Plant and Equipment, net	**$ 393,604**	327,219	325,212	317,798	336,574
Total Assets	**$1,028,597**	950,177	862,135	803,981	812,814
Long-Term Debt	**$ 122,470**	148,980	90,490	92,000	93,823
Shareowners' Equity	**$ 420,208**	392,852	380,041	376,624	356,023
Per Share of Common	**$ 31.16**	29.15	28.24	28.03	26.82

OTHER STATISTICS *(dollars and shares in thousands)*	1974	1973	1972	1971	1970(c)
Capital Expenditures	**$ 114,682**	67,489	55,335	47,105	89,326
Depreciation and Amortization	**$ 42,966**	40,931	38,296	37,672	35,720
Rent	**$ 74,441**	66,013	60,107	56,442	55,073
Interest	**$ 13,809**	11,835	8,427	9,828	9,461
Common Shares Outstanding	**13,487**	13,477	13,455	13,436	13,274
Number of Shareowners	**45,766**	46,436	44,893	42,182	44,786
Number of Regular Employees	**55,477**	50,400	52,119	52,073	53,811

RETAIL FACILITIES *(areas in thousands of square feet)*	1974	1973	1972	1971	1970(c)
Supermarkets					
Opened	**83**	80	59	67	99
Remodeled	**84**	68	57	74	85
Closed	**127**	160	126	157	94
Stores — End of Year	**1,241**	1,285	1,365	1,432	1,522
Total Area	**25,594**	24,706	24,896	25,688	26,457
Drug Stores					
Opened	**64**	36	46	47	53
Closed	**35**	19	28	20	3
Stores — End of Year	**522**	493	476	458	431
Total Area	**5,633**	4,883	4,525	4,253	3,946

(a) Represents earnings before extraordinary loss of $5,340,920 or $.40 per share arising from discontinuance of Family Center operations and credit of $586,877 or $.04 per share resulting from a change in the method of applying an accounting principle.
(b) Represents earnings before extraordinary loss of $4,056,000 or $.30 per share arising from discontinuance of Wisconsin operations.
(c) Fifty-three weeks.

"Depth in management is a Kroger strength."

OPERATING AND STAFF VICE PRESIDENTS

CORPORATE STAFF

WILLARD R BEDELL, *Labor Relations*
CARL W. BRIESKE, *Tax Counsel*
RUDOLPH P. GALLAT, *Corporate Economist*
LORRENCE T. KELLAR, *Allied Businesses*
C MANLY MOLPUS, *Public Affairs*

KROGER FOOD STORES

Headquarters Staff

RICHARD L. BERE, *Produce Merchandising*
ROBERT L COTTRELL, *Store Operation Services*
BOBBIE L. CRISWELL, *Distribution Operations*
F. LELAND DAVIS, *Advertising*
THEODORE ENGEL, *Grocery Merchandising*
JACK G. HUDSON, *Controller*
WALTER W WHITE, *Distribution Administration*

Retail Operations

BILL G. BEATY, *Central Marketing Area*
DONALD J BERENS, *Nashville Operations*
NEWTON W. BRIGGS, *Charleston Operations*
DAVID A. BURT, *Michigan Marketing Area*
RONALD G DAUGHERTY, *Marketing-Central Marketing Area*
JACK W DAVIS, *Southland Marketing Area*
WALTER R. DRYDEN, *Cincinnati Marketing Area*
ROBERT G EVERINGHAM, *Houston Marketing Area*
EUGENE W GRINER, *Peoria Operations*
RICHARD M KOSTER, *Market Basket Marketing Area*
JAMES A. LeROY, *Delta Marketing Area*
STEWART W LONG, *Little Rock Operations*
NERVILLE A. SAWALL, *Louisville Marketing Area*
RICHARD D. SCHILL, *Dallas Marketing Area*
EDWIN A. SIEVEKING, *Erie Marketing Area*
A. WAYNE SMITH, *Mid-Atlantic Marketing Area*
HAROLD P TEMPLETON, *Columbus Marketing Area*
CHARLES L. THOMAS, JR , *Atlanta Operations*
ADRIAN L. VANNICE, *Erie Marketing Area Operations*
CHARLES W WHITE, *Gateway Marketing Area*

KROGER FOOD PROCESSING

STUART M. BERMAN, *Management Services*
RALPH H. DeSHA, *Processed Meats Division*
FERD M KISRO, *Poultry and Egg Division*
GEORGE M LAUGHLIN, *Grocery Products Division*
BOBBY D. REUSSER, *Baked Foods Division*
RONALD R RICE, *Dairy Foods Division*

SUPERx DRUG STORES

Headquarters Staff

N. RONALD ADAMS, *Controller*
CHARLES H. EVANS, *Regional*
GLENN T. EVANS, *Regional*
ALBERT G. HARSNETT, *Sales*
WILLIAM J HOWE, *Personnel*
CARL L. JESINA, *Administration*
GEORGE W. KEITH, *Marketing*
DAVID W KUNERT, *Property*

Retail Operations

CLARENCE H. ARCHER, *North Central Division*
WILBERT K. BAUMGARTH, *South Central Division*
CLIFFORD F CLEAGE, *South Eastern Division*
HERMAN B. HOSKINS, *Western Division*
GORDEN P. SAUE, *Southern Division*
JAMES A. SPECHT, *Ohio Division*

HAPPY FOOD STORES

SAMUEL D. THOMPSON, JR., *President*

The Kroger Co.

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